

Implementation Procedures for ITOC's Debt Financing Oversight Responsibilities

Ordinance Language

"Review proposed debt financings to ensure that the benefits of the proposed financing for accelerating project delivery, avoiding future cost escalation, and related factors exceed issuance and interest costs." **[Paragraph #9]**

Background/Discussion

- The current *TransNet* program has been financed through a combination of pay-as-you-go financing and debt financing. A short-term variable rate Commercial Paper (CP) program was established in 1991 with a limit of \$135 million and a series of long-term debt issues have been used to accelerate the implementation of the major highway and rail transit projects, as well as several major street and road projects.
- At the June 2005 ITOC meeting, SANDAG's Financial Advisor, Keith Curry from Public Financial Management (PFM), described SANDAG's debt financing history under the *TransNet* program and described the interim financial strategy for funding the Early Action Program, as approved by the SANDAG Transportation Committee in May 2005.
- This interim financial strategy involved the expansion of the CP program from \$135 million to \$335 million to provide a mechanism for funding the accelerated implementation of the Early Action Program projects prior to the revenues from the *TransNet* Extension becoming available in July, 2008. The strategy also included investigating potential hedging strategies that could be employed to lock in historically low rates for upcoming long-term debt issues.
- The ITOC's oversight of debt financing activities should focus on obtaining an understanding of the debt financing being proposed, evaluating the pros and cons of the proposed approach as opposed to other financing options, and ensuring that the proposal is cost-effective in terms of the overall delivery of the *TransNet* program. The ITOC should take the following factors into consideration in reviewing debt financing proposals:
 - a. The proposed interest rate and the current interest rate environment
 - b. The overall cost of issuance
 - c. The risk versus the benefits from the proposed use of derivative products (interest rate swaps)
 - d. The ability to spend the bond proceeds as scheduled
 - e. The increase or decrease in interest rate risk as a result of doing or not doing a given transaction or by the selection of one type of financing vehicle over another.
 - f. The risk of cost increases in a pay-as-you-go scenario due to price escalation.
- In reviewing the cost-effectiveness of a proposed debt financing, the ITOC should consider the costs related to the proposed financing as compared to the benefits related to accelerating the delivery of the program - such as savings resulting from avoiding cost escalation and other benefits such as travel time savings, safety improvements, energy savings, and air quality improvements associated with the congestion relief provided by the implementing the projects in an expedited manner.

- With the exception of the initial commercial paper expansion proposal, future debt financing proposals will be based on the most recent update to the *TransNet* Plan of Finance. The Plan of Finance will provide the latest cash flow estimates related to the projects and programs to be funded with *TransNet* revenues. The Plan of Finance will include estimates of state, federal, and other available matching funds and will identify debt financing required to meet the desired project implementation schedules.

Schedule/Timing

- The first scheduled action related to debt financing is the expansion of SANDAG's existing CP program. The approval of the legal documents related to the expansion of the CP program is scheduled for the September 23, 2005 Board of Directors meeting.
- Staff is currently working with the Financial Advisor, Bond Counsel, Disclosure Counsel, CP Dealers, Letter/Line of Credit providers, Rating Agencies, and related parties on the development of the legal documents required for the CP expansion.
- It is anticipated that this issue will be a major discussion item at the September ITOC meeting. SANDAG's Financial Advisor will be present to review the process related to the CP program and to discuss any issues or concerns that the ITOC may have.
- The next step regarding debt financing is the solicitation of proposals related to hedging opportunities to protect against interest rate increases prior to SANDAG's next long-term financing. This activity is scheduled to commence in October following the completion of the CP expansion process.
- The first major long-term financing is currently planned for mid-2008 once all the debt incurred under the current *TransNet* program is paid off and the *TransNet* Extension officially begins.
- As future debt financing issues arise, staff will notify the ITOC at its next meeting and will coordinate with the ITOC during the debt financing process. A recommendation from the ITOC will be sought prior to final action on the proposed financing by the SANDAG Board of Directors.